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Companies & Markets

SoftBank hit by $3.3bn loss after forecasts of net profit

- Third consecutive quarter in the red
- Vision Fund's revival provides hope

LEO LEWIS — TOKYO

SoftBank Group failed to turn a profit for a third consecutive quarter, recording a ¥477.6bn ($3.3bn) loss for the three-month period ending in June, despite a recovery at its flagship Vision Fund investment unit.

The quarterly loss in net income defied analyst predictions that the group would return to profit following a steady recovery in the tech-heavy Nasdaq index. SoftBank founder Masayoshi Son had also told shareholders in June the company was "going on the counter-offensive", raising hopes of a revival.

Based on an average of four analysts surveyed by Refinitiv ahead of yesterday's results, the market had expected SoftBank to make a ¥75bn group-wide profit in the first quarter of the financial year that began in April. But the group sustained losses partly as a result of share price declines at Alibaba, Deutsche Telekom and T-Mobile.

> 'I think [the Japanese investment group's] good and bad experiences will make it more astute'

In its earnings presentation that included an image of light at the end of a tunnel, SoftBank's chief financial officer Yoshimitsu Goto said the company was going to invest with caution.

"We want to strike a good balance between the gas and the brake for our investment activities," said Goto, who outlined plans for the company to expand its investment in artificial intelligence-related technologies.

Although SoftBank's April-to-June loss was heavier than expected, it was significantly better than the group's performance in the same quarter a year earlier, when it made a loss of ¥3.2tn.

Richard Kaye, a portfolio manager at Comgest and a long-term investor in SoftBank, said the company was starting to be understood again as a major innovator. "I think SoftBank will become adventurous again, and its good and bad experiences will make it more astute," said Kaye.

The depth of SoftBank's losses were partially offset by an improvement at the Vision Fund unit, which booked an investment gain of ¥159.8bn due to a recovery in global tech valuations.

The gains included those attributable to subsidiaries of SoftBank, such as UK chip designer Arm.

SoftBank yesterday confirmed Arm's valuation at $45.2bn at the end of June, a rise of about 13 per cent from the previous quarter.

Arm, as analysts pointed out, simultaneously recorded a 10.8 per cent year-on-year drop in sales and an overall loss of ¥9.5bn for the same three-month period. SoftBank blamed the decline on slowing revenues in the semiconductor industry.

David Gibson, a longtime SoftBank analyst at MST Financial, said the company was "once again getting creative with its presentations to sing a more positive story".

Son is planning to float Arm in the US this year and analysts believe he may seek a valuation for the company of as much as $80bn.

Before the April-to-June period, the Vision Fund had logged five consecutive quarters of losses, battered by the sharp plunge in global tech valuations.

The Vision Fund segment, which includes Vision Funds 1 and 2 as well as the $7.6bn LatAm Funds, recorded a pre-tax profit of ¥61bn for the most recent quarter, against a ¥2.3tn loss in the same period a year earlier.

See Lex

Hearty cheer Investors send Novo up 17% as study shows obesity drug reduces cardio risk

A New York subway poster extols the weight-loss benefits of Novo Nordisk's Wegovy — Richard B. Levine/Sipa/Reuters

HANNAH KUCHLER — LONDON
JAMIE SMYTH — NEW YORK

Novo Nordisk's best-selling obesity drug cuts the risk of heart attacks or strokes, say the findings of a trial that sent shares in the Danish pharmaceuticals group and main rival Eli Lilly to records yesterday.

The preliminary results of the study found that patients who took the Wegovy drug had a 20 per cent lower chance of suffering a cardiovascular event such as a heart attack or stroke than those who received a placebo.

Analysts said the results of the late-stage trial would press public health systems and private health insurers to cover a new class of weight-loss drugs called GLP-1 agonists developed by Novo and US drugmaker Lilly.

In the US, some health insurers have been reluctant to cover the drugs because of their high cost and the sheer number of people who qualify to take them, with obesity affecting about 40 per cent of the population.

Evan Seigerman, analyst at BMO Capital Markets, said that the health benefits demonstrated by Novo's trial made it "unethical" not to provide potentially life-saving medications to those in need.

Expanding coverage for Wegovy and Lilly's diabetes drug, Mounjaro, which is expected to be approved to treat weight loss in the autumn, could unlock a market worth more than $100bn a year, he said.

Novo's shares closed 17.3 per cent higher in Copenhagen yesterday while Lilly was up 13.5 per cent in early afternoon trading in New York.

Lilly was also boosted by the publication of results that showed sales of Mounjaro hit almost $1bn in the second quarter. It raised its full-year annual sales forecast by $2.2bn to the range of $33.4bn to $33.9bn.

Lilly's shares have risen 75 per cent over the past year, making it the most valuable drugmaker by market capitalisation.

Novo said that the Wegovy trial, which enrolled 17,604 adults aged 45 or older, had achieved its primary objective by showing a statistically significant reduction in major cardiac events for patients who received 2.4mg of semaglutide, the main ingredient in Wegovy, compared with those who took the placebo.

Martin Holst Lange, executive vice-president for development at Novo, said that until now there had been no approved weight-management drug that also reduced the risk of heart attack or stroke. It showed that the drug had "the potential to change how obesity is regarded and treated".

Novo expects to file for regulatory sign-off to expand what Wegovy can be used for, to include lower cardiac risks, in the US and the EU this year.

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Zoom recalls staff to the office as home working fades

RICHARD WATERS — SAN FRANCISCO

Zoom, the videoconferencing group that became synonymous with working from home in the pandemic, has joined the parade of companies requiring workers to show up in person.

The San Francisco-based software company has told employees who live within 50 miles of one of its locations that they will have to come to the office at least two days a week.

Zoom called its new work requirements "a structured hybrid approach" that was designed to put it "in a better position to use our own technologies, continue to innovate, and support our global customers". It added that it would "continue to leverage the entire Zoom platform to keep our employees and dispersed teams connected and working efficiently".

Zoom's shares leapt 15-fold from its initial public offering price the year before the pandemic after companies turned to its easy-to-use video meetings to keep their operations ticking over when offices were forced to close.

> 'To let employees work anywhere has sort of become a fashion'
>
> Eric Yuan, Zoom chief executive

Its stock market value peaked at more than $140bn, making it the tech sector's most visible winner from the Covid-19 crisis, before falling back more than 85 per cent as many of its customers began calling staff back to work.

Zoom has sought to turn the new hybrid work arrangements adopted by many of its customers into a new business opportunity. However, its Zoom Rooms offering — which is designed to improve the experience of online meetings involving people who are in the office with others working remotely — has not caught on with anything like the force of its original service.

The company reported revenue growth in its latest quarter of 3 per cent, a far cry from the growth of more than 400 per cent it recorded in 2020.

"I think hybrid work is going to stay," creating a new business opportunity for the company, chief executive Eric Yuan told investors on an earnings call in May. "To let employees work anywhere has sort of become a fashion."

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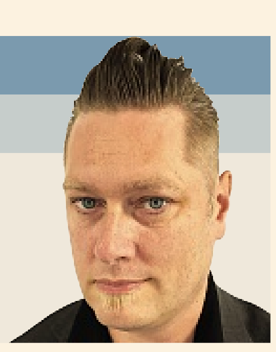
Vodafone's merger plan highlights sector pressure to consolidate

INSIDE BUSINESS
TELECOMS

Nic Fildes



Vodafone's network in its home market was once considered sacrosanct for a company that spread from Newbury to all corners of the world. Yet the plan to merge its UK business with smaller rival Three is the latest step to get its sprawling house in order.

Vodafone and CK Hutchison's Three have been here before. They engineered an equal-split merger in Australia in 2009, which acts as a precursor to this proposed deal.

It did not go well. The term "Vodafail" entered the Australian vernacular as the merger was mishandled and a network meltdown enraged the locals. The combined company lost a staggering 1mn customers — or almost 20 per cent of the base — as the dream of creating a stronger player receded into the reality of running a company placed a distant third in a three-player market.

The deal nonetheless became a template for markets including the US, Germany, Italy and Ireland, where regulators were swayed by arguments that consolidation into a telecoms triumvirate market structure would create stronger mobile players better able to invest in new 4G and 5G networks.

That "four-to-three" trend signalled the beginning of the end of the global aspirations of telecoms groups that had planted flags. The cost and bureaucracy of running networks from San Francisco to Soweto to Sydney to Suva, as Vodafone did, overwhelmed those ambitions. In-market consolidation became the order of the day.

Britain has been slow to join the party, largely because its four-to-three trend was stopped in its tracks when the merger of O2 and Three in 2016 was blocked on competition grounds. The Vodafone-Three proposal, and the merger of Orange and MásMóvil in Spain, will test whether the regulatory mood in Europe has changed.

Vodafone has learnt the lessons from its Australian troubles more than a decade ago. It will hold a 51 per cent stake in the combined UK business, which means it will retain control of the network in its home market. That was not the case in Australia where a former Hutchison executive presided over the Vodafail era that only really ended when the mobile company was folded into local broadband company TPG.

> The Vodafone-Three proposal, and Orange and MásMóvil's in Spain, will test whether regulators' mood has changed

It also provides an acid test over the impact of the merger on consumers. Vodafone, Three and TPG's combination did not trigger a sharp rise in the cost of telecoms in the already pricey Australian market, according to analysts. They argue that the companies would have been unlikely to survive as standalone businesses, so combining them at least preserved competition.

Arguably the biggest winner from the concentration of telecoms players was Telstra, the incumbent, which has grown its market value to A$49bn (£25bn) compared with the £20bn that the entire Vodafone Group commands and the £11bn value of its British equivalent BT.

Vodafone and Three had a 26 per cent share of the Australian mobile market when they merged but that has dwindled to 18 per cent, according to New Street Research, as a collapse in tourist and international student numbers during Covid hit it harder than its rivals. Telstra remains a dominant force with 50 per cent of the market while Singtel-owned Optus has 32 per cent.

More worrying is that only Telstra is covering its cost of capital, with Optus and Vodafone/TPG achieving returns on invested capital of only 1.2 per cent, according to New Street. Even in a three-player market, the going is tough.

That point was underlined further this week when TPG said it was in talks to sell its fibre assets to a Macquarie-owned rival for A$6bn to reduce debt. The sale will strengthen its balance sheet, but analysts pondered what the company will stand for in the future given that it will have undone the benefits of bringing mobile and fixed-line networks under one roof.

Some executives at Vodafone have privately argued for years that markets such as Australia can only really support two healthy operators because of the power of Telstra. Competition from cloud players including Amazon and Microsoft is building in the once-lucrative enterprise telecoms market. And there is the looming threat of low-Earth orbiting satellite groups such as OneWeb and Elon Musk's Starlink, which are targeting the wireless sector. So the pressure on mobile-only operators could become more intense over time. The onus could soon be on regulators to decide whether there is even room for three players, never mind four.

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